DOCUMENT RESUME

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ABSTRACT

In a consumer education brochure, the Federal Trade Commission traces steps that a family might take in fiancing an auto. Through the use of a case study comparison of the credit terms of two car dealers, explanations are given for terms such as annual percentage rate, credit life insurance, finance charge, and deferred payment price. Copies of contracts are shown to assist teachers in assembling their own copies of contracts in local usage, and discussion questions are raised that stimulate students to think in terms of using credit wisely. (EA)

ED 091565

FEDERAL TRADE COMMISSION

Case Study With Discussion Questions

on

How To Use Truth in Lending

Case No. 1

"The Grey Family Finances an Auto Purchase"

Prepared by Washington Area and Kansas City FTC Regional Office Staff

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For Use
in
Consumer Education

CE001 337

Note: The contracts shown are meant to guide educators in assembling their own copies of contracts in local usage.

FALL 1971

THE GREY FAMILY FINANCES AN AUTO PURCHASE

Last summer the Grey family's old car finally went its last mile and had to be junked. The Greys needed another one, so Mr. Grey checked local newspaper ads for used cars. He finally saw two ads that interested him. Both were for the same kind of car and prices were identical. The Lucky Used Car Lot advertised credit terms, and required a $200 downpayment. But Wheels and Deals Used Cars advertised "No Money Down." That sounded good to Mr. Grey, so he paid Wheels and Deals a visit.

(The ads Mr. Grey saw are on the next two pages.)

(Examples 1 and 2)

why pay more

1967 OLDS 98

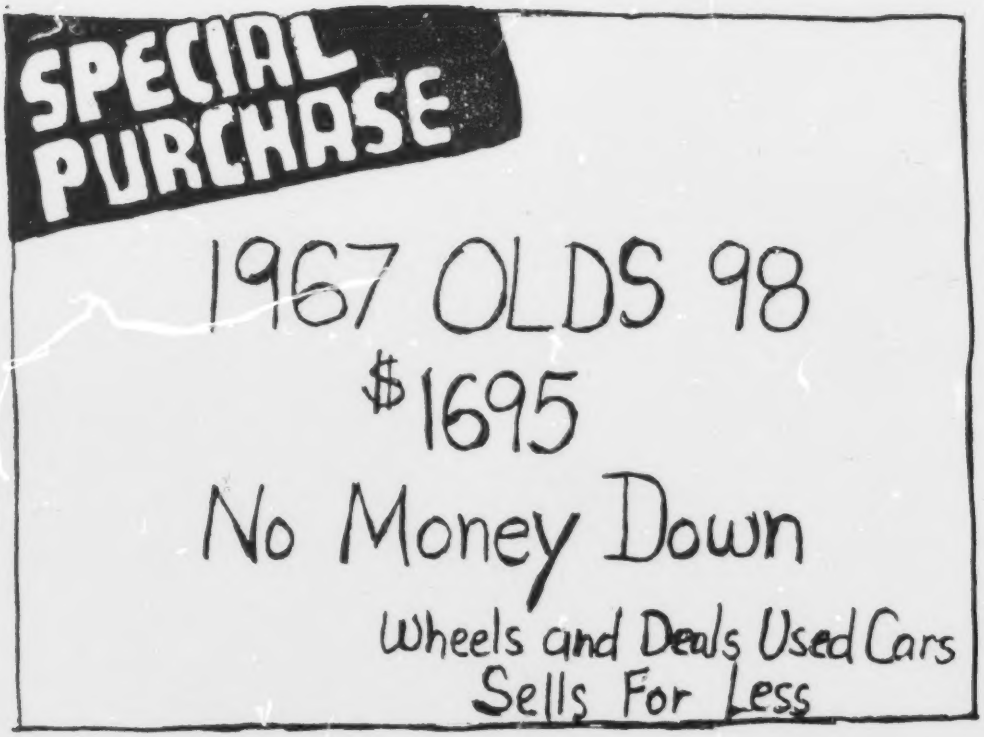
$1695

Full Price Delivered

Cash Price: $1695 Down Payment $200
Unpaid Balance $1495 FINANCE CHARGE $343
Total of Payments $1860 Deferred Payment Price $2060
Terms 24 months @ 77.50 a month;
ANNUAL PERCENTAGE RATE 20.40% on approved credit

THE LUCKY USED CAR LOT

EXAMPLE 1


SPECIAL PURCHASE
1967 OLDS 98
$1695
No Money Down
Wheels and Deals Used Cars
Sells For Less

EXAMPLE 2

At Wheels and Deals Mr. Grey looked the car over, liked it, and asked about terms for financing it. The salesman told Mr. Grey that he could pay $80.61 a month for 24 months, and gave him a contract that was already filled in.

(The contract is Example 3.)

The contract was a bit confusing to Mr. Grey, but right away he noticed a $200 downpayment included in the figures. He asked the salesman about this since "no money down" was what had attracted him to Wheels and Deals in the first place.

The salesman told Mr. Grey that the credit department could finance only $1,495 for him. However, he told Mr. Grey that he could borrow $200 for a downpayment from a loan company down the street. Payments would be less than $20 a month for only 12 months. Mr. Grey thought about that, but decided he probably wouldn't need a loan. He had already saved about $200 which he could apply on a car.

(The loan Mr. Grey could have taken out is shown as Examples 4 and 5.)

On this 15th day of July 1970 WHEELS AND DEALS USED CARS (Name)
1296 Center St. (Street Address) St. Louis (City) St Louis (County) Mo. (State)
PARTY SELLER, hereby agrees to sell and Howard Grey (Name) 3585 Mainline (Street Address)
St Louis (City) St Louis (County) Mo. (State) DEBTOR—BUYER, hereby agrees to buy and to grant to Secured Party a security interest in the following described property:

New Used	Yr. Mod.	Make	No. Cyl.	Model No.	Model Name	Body Type	Serial Number	Motor Number
USED	1967	Olds	8	98		Sedan	0F08H840	121347

[X] Radio [X] Heater [X] Automatic Transmission [ ] Overdrive [X] Power Steering [X] Power Brakes [ ] Power Windows [ ] Air Conditioning [ ] Other

This security interest is given to secure the payment and performance of the Debtor's obligations under this agreement and also to secure the payment of the Debtor's obligations on a promissory note of even date executed by Debtor and made payable to Secured Party in the principal sum of nineteen hundred thirty four and 63/100 Dollars ($ 1934.63) payable in installments and maturing on the 15th day of July 19 72.

CREDIT COST DISCLOSURE AS REQUIRED BY LAW

1. Cash Price	$ 1645.00	5. Unpaid Balance & Amount Financed	$ 1560.23
2. Down Payment		6. FINANCE CHARGE (Composed of)	
(2A) Cash Down Payment	$ 200.00	(6A) Time Price Differential	$ 374.40
(2B) Trade In (Describe)	$	(6B) Required Insurance (Itemize)	
			$
Total Down Payment	$ 200.00	(6C)	$
3. Unpaid Balance of Cash Price	$ 1445.00	6. TOTAL FINANCE CHARGE	$ 374.40
4. Other Charges (Itemize)		7. Deferred Payment Price (1, 4D & 6)	$ 2134.63
(4A) Non Required Insurance		8. ANNUAL PERCENTAGE RATE 21.60%	
CREDIT LIFE	$ 43.23	9. Total of Payments (3, 4D & 6)	$ 1934.63
	$	24 installments of $ 80.61 monthly beginning 8/15/70	
(4B) Official Fees License Fee	$ 22.00		
(4C)	$		
10. Total Other Charges	$ 65.23		

LIABILITY INSURANCE COVERAGE FOR BODILY INJURY AND PROPERTY DAMAGE CAUSED TO OTHERS IS NOT INCLUDED. Number of payments, amounts thereof, due dates of each payment, and frequency thereof are disclosed in this document in the note and security agreement. The description of property to which a security interest is claimed and granted thereby is disclosed in this document in the security agreement. The description of property to which a security interest is claimed and granted thereby is disclosed in this document in the security agreement. That after-acquired property is also liened and that future advances and other indebtedness to the secured party are likewise secured by the security interest in said property is disclosed within this document in the security agreement. Late charges of $5.00 or 5% of the payment, whichever is less, will be charged. Prepayment of the obligation may earn refund of the unearned FINANCE CHARGE as computed under Rule of 78s.

INSURANCE

PROPERTY INSURANCE, if written in connection with this extension of credit, may be obtained through any proper agent or company of choice by borrower, but if borrower desires such coverage to be obtained through or paid by creditor, the cost will be $ for the term of the credit, subject only to rate increases granted by state officials, and such charge will be added to the cost of the credit.

CREDIT LIFE AND DISABILITY INSURANCE, is not required to obtain this extension of credit. If borrower desires such coverage the costs as set out below will be added to the cost of the credit.

1. The cost for Credit Life Insurance alone will be $ for the term of the loan.
2. The cost for Credit Life and Disability Insurance will be $ for the term of the credit.

I desire Credit Life and Disability Insurance date signed

I desire property insurance date signed

I desire Credit Life Insurance date signed

I desire NO Insurance date signed

Party(ies) stipulate and agree that all provisions on the reverse side hereof are incorporated herein by reference and constitute a part of this agreement. Notice to Buyer: Do not sign this contract before you read it or if it contains any blank spaces. You are entitled to an exact copy of the contract you sign. Under the law, you have the right to pay off in advance the full amount due and obtain a partial refund of the time price differential.

Debtor acknowledges that on the day and year first above written, this agreement was executed and that on said day a fully completed copy of this agreement executed by both Secured Party and Debtor has been delivered to him.

SECURED PARTY

Name (Corporation or Partnership)

By

DEBTOR

(Name) (Corporation or Partnership)

By

-5-

Example 3

PROMISSORY NOTE

$ 229.92 (Amount) St. Louis (City), Missouri 7/15/70 (Date)

FOR VALUE RECEIVED, the undersigned jointly and severally promise to pay to the order of I.C.U. Loan Co. the sum of Two hundred Twenty-Nine and 92/100 – Dollars $ 229.92 at the place designated by the holder hereof, with interest after maturity until paid at the maximum lawful contract rate, in 12 installments of $ 19.16 per month, the first installment being due on 8/15/70, and each successive installment being due on the same day of each successive month. Each maker, guarantor, indorser and surety hereof waives presentment, notice of dishonor, protest and notice of protest, and diligence in bringing suit hereon, and consents that the time of payment of this indebtedness or any or all installments thereof may be extended from time to time and more than one time without notice and without affecting their liability.

The undersigned agree that the holder hereof may charge and collect interest on each delinquent payment hereunder at a rate which shall not exceed the highest lawful contract rate.

If any of the said installments, or any part thereof, are not paid when due, then the entire indebtedness then remaining unpaid shall, at the option of the holder hereof, and without notice or demand, become immediately due and payable and the undersigned agrees to pay an attorney's fee of fifteen per cent (15%) of the balance due and payable under this note if same is referred to an attorney for collection after default, and further agrees to pay court costs incurred in the collection if attorney's fees and court costs are permissible by law.

Witn

Debtor's signature

Debtor's signature

©B-267 Saml Dodsworth Co. K.C. 1969

Example 4

SECURITY AGREEMENT

(FOR DIRECT LOANS ONLY)

KNOW ALL MEN BY THESE PRESENTS, that Howard Grey (Name of Debtor)

residing at 3585 Mamline (Address), St Louis (City), St. Louis (County), Mo. (State)

hereinafter (jointly and severally if there be more than one) called debtor, grants, conveys and gives to I.O.U. Loan Co. (Name of Secured Party)

1348 Arsenal St. (Address) St. Louis, (City) Missouri (State)

hereinafter called Secured party

a SECURITY INTEREST in and to the following described property, hereinafter called collateral, together with all additions, replacements, accessions and accessories thereto as listed below or on the attached sheet which is incorporated herein

as security for payment of a note or notes executed by debtor to secured party

CREDIT COST DISCLOSURE AS REQUIRED BY FEDERAL LAW

1 Amount of Credit	$ 200.00	4 FINANCE CHARGE (Composed of)	
2 Other Charges (Itemized)		A Interest or Credit Cost	$ 24.42
	$	B	$
	$ —	C	$ —
	$	4 TOTAL FINANCE CHARGE	$ 24.42
	$	5 Total of Payments	$ 224.42
3 Amount Financed (1 & 2)	$ 200.00	6 ANNUAL PERCENTAGE RATE	26.50 %

12 installments of $ 19.16 monthly beginning Aug. 15, 1970.

The number of payments hereunder, the amount of each payment, the due date of first and all subsequent payments, and the frequency of payments are disclosed elsewhere on this document within the body of the promissory note and security agreement. The description of the property to which a security interest is granted and claimed, the fact that afteracquired property is also liened and that future advances and other indebtedness to the secured party are likewise secured by the security interest in said property is disclosed within this document in the security agreement. Prepayment of the obligation entitles refund of the unearned FINANCE CHARGE computed by Rule of 78s.

INSURANCE

PROPERTY INSURANCE, if written in connection with this extension of credit, may be obtained through any proper agent or company of choice by borrower, but if borrower desires such coverage to be obtained through or paid by creditor, the cost will be $ for the term of the credit, subject only to rate increases granted by state officials, and such charge will be added to the cost of the credit.

CREDIT LIFE AND DISABILITY INSURANCE, is not required to obtain this extension of credit. If borrower desires such coverage the costs as set out below will be added to the cost of the credit.

1 The cost for Credit Life Insurance alone will be $ for the term of the loan.

2 The cost for Credit Life and Disability Insurance will be $ for the term of the credit.

I desire Credit Life and Disability Insurance _____ date _____ signed

I desire property insurance _____ date _____ signed

I desire Credit Life Insurance _____ date _____ signed

I desire NO Insurance _____ date _____ signed

Party(ies) stipulate and agree that all provisions on the reverse side hereof are incorporated herein by reference and constitute a part of this agreement.

Signed and delivered the date first above written and debtor hereby acknowledges receipt of a copy of the security agreement, promissory note, credit disclosure and insurance disclosure, all completely filled out and executed.

Debtor

Debtor

Corporation or Partnership

By Example 5

Mr. Grey looked at the car contract again, saw a charge for credit life insurance, and asked about it. The salesman quickly told him that the insurance really was a good thing to have.

Finally Mr. Grey noticed the words ANNUAL PERCENTAGE RATE and asked what they meant. The salesman told him that was a term required by the Truth in Lending Law, but really didn't mean a thing. He told Mr. Grey that the only important figure was the amount he would owe on the car - and that was $1,934.63. That was a lot of money, and Mr. Grey decided to think things over before signing the contract.

. . . . . .

What has Mr. Grey learned so far?

1. What did he find out about the "no money down" ad?

   It wasn't honest because a downpayment really was required. Mr. Grey was tricked.

   REMEMBER - "No money down" is an attention-getter in an advertisement. Seldom can a large purchase be made on credit with nothing down.

   (It also was a violation. The Truth in Lending Law says you must advertise meaningful credit terms or advertise none at all. It specifies just what is required.)

2. Was the salesman really helpful?

   No. He wanted to make the sale. He didn't really answer Mr. Grey's questions. He wasn't interested in Mr. Grey's welfare - and he led him to believe things that weren't so.

3. Did he say that credit life insurance was required?

   No, but the charge was included. That made it appear that it was required. Was it? Let's look at the contract (Example 3) and find out.

4. Do you think it's a good idea to be handed a contract that is already filled in?

   No. You ought to be very suspicious. There must be some reason. Be sure to see what other charges are included. What if the contract is BLANK? DON't SIGN UNTIL YOU SEE ALL COSTS OF THE SALE!!!

5. If Mr. Grey had taken out a $200 loan, what would his payments have been? (See Loan Disclosure - Example 5)

Loan payments	-	$19.16 (12 months)
Car payments	-	$80.61 (24 months)
Total per month for 12 months	-	$99.77

Financing a downpayment makes a deal very costly!

6. (Discuss location of disclosures on loan contract - Example 5)

Is insurance required here? (Read from contract.)

7. Do you think the law would require using the term ANNUAL PERCENTAGE RATE if it had no meaning?

No, but remember that term. We'll find out about it later.

Let's continue with our story -

Mr. Grey started home, and them remembered that the Lucky Used Car Lot had advertised a car like the one he had just seen. The ad had stated a lot of terms - one was ANNUAL PERCENTAGE RATE - but he had forgotten what they were. He decided to go to Luckys and see how the credit terms there compared with those offered by Wheels and Deals.

The salesman at Luckys showed Mr. Grey the car, and asked if he had seen their ad. Mr. Grey said he had, but confessed that he hadn't really understood all the terms. The salesman then got a blank contract, sat down with Mr. Grey and explained the credit terms, and pointed out that some of them could be used to great advantage by a shopper.

(The blank contract is Example 6 - next page.)

He told Mr. Grey that he should always look for four things when buying on credit, and made a check mark beside each as he described it. -

·First, look for the CASH PRICE. You ought to know what the price would be if you were paying cash.

SECURITY AGREEMENT AND RETAIL INSTALLMENT SALE CONTRACT (INSTALLMENT SALE OF MOTOR VEHICLE)

On this day of , 19 . (Name)

(Street Address) (City) (County) (State)

SECURED PARTY—SELLER, hereby agrees to sell and (Name) (Street Address)

(City) (County) (State), DEBTOR—BUYER, hereby agrees to buy and to grant to Secured Party a Security interest in the following described property

New/Used	Yr. Mod	Make	No. Cyl.	Model No.	Model Name	Body Type	Serial Number	Motor Number

☐ Radio ☐ Heater ☐ Automatic Transmission ☐ Overdrive ☐ Power Steering ☐ Power Brakes ☐ Power Windows ☐ Air Conditioning ☐ Other

This security interest is given to secure the payment and performance of the Debtor's obligations under this agreement and also to secure the payment of the Debtor's obligations on a promissory note of even date executed by Debtor and made payable to Secured Party in the principal sum of Dollars ($) payable in installments and maturing on the day of 19

CREDIT COST DISCLOSURE AS REQUIRED BY LAW

1. Cash Price	$	5. Unpaid Balance & Amount Financed	$
2. Down Payment		6. FINANCE CHARGE (Composed of)	
(2A) Cash Down Payment	$	(6A) Time Price Differential	$
(2B) Trade In (Describe)	$	(6B) Required Insurance (Itemize)	
			$
Total Down Payment	$	(6C)	$
3. Unpaid Balance of Cash Price	$	6. TOTAL FINANCE CHARGE	$
4. Other Charges (Itemize)		7. Deferred Payment Price (1, 4D & 6)	$
(4A) Non Required Insurance		8. ANNUAL PERCENTAGE RATE %	
	$	9. Total of Payments (3, 4D & 6)	$
	$	installments of $ monthly beginning	
(4B) Official Fees	$		
(4C)	$		
4D. Total Other Charges	$		

LIABILITY INSURANCE COVERAGE FOR BODILY INJURY AND PROPERTY DAMAGE CAUSED TO OTHERS IS NOT INCLUDED. Number of payments, amounts thereof, due dates of each payment, and frequency thereof are disclosed in this document in the note and security agreement. The description of property to which a security interest is claimed and granted, the fact that afteracquired property is also liened and that future advances and other indebtedness to the secured party are likewise secured by the security interest in said property is disclosed within this document in the security agreement. Late charges of $5.00 or 5% of the payment, whichever is less, will be charged. Prepayment of the obligation may earn refund of the unearned FINANCE CHARGE as computed under Rule of 78s.

INSURANCE

PROPERTY INSURANCE, if written in connection with this extension of credit, may be obtained through any proper agent or company of choice by borrower, but if borrower desires such coverage to be obtained through or paid by creditor, the cost will be $ for the term of the credit, subject only to rate increases granted by state officials, and such charge will be added to the cost of the credit.

CREDIT LIFE AND DISABILITY INSURANCE, is not required to obtain this extension of credit. If borrower desires such coverage the costs as set out below will be added to the cost of the credit.

1. The cost for Credit Life Insurance alone will be $ for the term of the loan.
2. The cost for Credit Life and Disability Insurance will be $ for the term of the credit.

I desire Credit Life and Disability Insurance date signed

I desire Credit Life Insurance date signed

I desire property insurance date signed

I desire NO Insurance date signed

Party(ies) stipulate and agree that all provisions on the reverse side hereof are incorporated herein by reference and constitute a part of this agreement. Notice to Buyer: Do not sign this contract before you read it or if it contains any blank spaces. You are entitled to an exact copy of the contract you sign. Under the law, you have the right to pay off in advance the full amount due and obtain a partial refund of the time price differential.

Debtor acknowledges that on the day and year first above written, this agreement was executed and that on said day a fully completed copy of this agreement executed by both Secured Party and Debtor has been delivered to him.

SECURED PARTY

(Name)

(Corporation or Partnership)

By

DEBTOR

(Name)

(Corporation or Partnership)

By

Example 6

PARTIES HEREBY WARRANT AND COVENANT:

1. That Debtor will not sell, offer to sell, or otherwise transfer or encumber the collateral or any interest therein without the prior written consent of Secured Party.

2. That Secured Party will procure the insurance coverage designated above herein the proceeds therefrom to be payable to the Secured Party and Debtor as their interests appear. If insurance other than insurance on motor vehicles is designated above herein, Debtor shall be covered thereby. In the event of any default under this agreement, the Secured Party is authorized to cancel the said insurance and to receive the return premiums, if any, which shall be either credited to the unpaid balance due under this contract, or used to purchase insurance protecting the interest of the Secured Party alone, or used for both, whichever Secured Party elects.

3. That Debtor will preserve the collateral and keep it in good condition, and shall allow the Secured Party to inspect the same at any reasonable time.

4. That Debtor shall not sell or dispose of the collateral or subject it to any unpaid charge or any subsequent interest of a third person, unless the Secured Party first gives written consent to such.

5. That the Secured Party may at the Secured Party's option discharge liens, security interests, or other encumbrances on the collateral, and may pay for the repair of any damage to the collateral, the maintenance and preservation thereof and for insurance thereon, and upon so doing Debtor shall on demand reimburse the Secured Party for any payment so made. Said payments advanced shall draw interest at eight percent (8%) per annum from the date of payment until reimbursement, shall be added to the indebtedness owed by Debtor and shall be secured by this Security Agreement.

6. That the Debtor's residence is:
☐ At the address shown in the first paragraph herein.
☐ At _____ (Street) _____ (City) _____ (State)

7. That the Secured Party's place of business is:
☐ At the address shown in the first paragraph herein.
☐ At _____ (Street) _____ (City) _____ (State)

8. That the Debtor shall not permit the removal of the collateral from _____ County, Missouri, except for its temporary removal in connection with its ordinary use, without first obtaining written consent of the Secured Party.

9. That the Debtor shall be in default under this agreement upon:

A. Default in the payment or performance of any obligation, covenant or liability contained herein;

B. Reasonable determination by Secured Party that any warranty or representation herein made was false when made;

C. Loss, theft, substantial damage, destruction, sale or encumbrance of any of the collateral, or the making of any levy, seizure or attachment there.

D. Death, dissolution, termination of existence, insolvency or business failure of Debtor, or appointment of a receiver for any part of the collateral, assignment for the benefit of creditors or the commencement of any proceeding under any bankruptcy or insolvency law by or against Debtor or any guarantor or surety for Debtor.

10. Upon such default and at any time thereafter, the Secured Party may declare all obligations secured hereby immediately due and payable and may proceed to enforce payment of the same and exercise any and all rights and remedies provided by the Uniform Commercial Code as well as all other rights and remedies possessed by the Secured Party. The Secured Party may require the Debtor to assemble the collateral and make it available to the Secured Party at a place designated by Secured Party which is reasonably convenient to both parties. Expenses for retaking, holding, preparing for sale, selling and the like shall include the Secured Party's reasonable attorney's fees and legal expenses. Any notification of sale or other disposition of the collateral required to be given by the Secured Party will be sufficient if given personally, or mailed by certified mail, not less than five (5) days prior to the day on which such sale or other disposition will be made, and such notification shall be deemed reasonable notice.

11. No waiver by the Secured Party of any default shall operate as a waiver of any other default.

12. The contents of the copy of the financing statement found immediately preceding this Security Agreement are incorporated herein by reference and made a part hereof.

13. Upon full performance of the Debtor's obligations under this agreement and full payment of the Debtor's obligations on the promissory note herein described, this agreement shall be void, otherwise to remain in full force and effect.

14. The terms of this agreement shall be binding upon the heirs, executors, administrators, successors, and assigns of the parties hereto.

ASSIGNMENT

For value received, the within agreement and all the right, title and interest of the undersigned Secured Party, to the property therein described and secured, is hereby sold, transferred, conveyed and assigned to

_____

its successors and assigns, with full authority to do every act and thing necessary to collect and discharge the same. The undersigned expressly warrants that the within agreement arose from the bona fide time sale to the Debtor of the property described therein and secured thereby, that the title to said property at the time of said sale was vested in the undersigned free and clear of all liens and encumbrances, that the undersigned had the legal right to and did properly assign and deliver such title as well as said property to the Debtor at the time of said sale, that said property was not misrepresented to the Debtor in any way and that the statements of the Debtor and all other statements of fact in this Security Agreement are true to the best of the knowledge and belief of the undersigned, and that the down payment indicated in said agreement was paid in full by Debtor in cash or trade in as stated therein. The above agreement and above described note were completely executed prior to Debtor's signing the same. All warranties herein contained are made to induce the assignee to purchase this agreement and if there is any breach of any warranty, without regard to the knowledge or lack of knowledge of the undersigned, the undersigned will on demand purchase this agreement from the assignee for the balance then remaining unpaid plus any costs and expenses paid or incurred by the assignee.

SECURED PARTY

_____ (Corporation or Partnership)

_____ By _____
(Name)

Example (Reverse Side)

·Second, look for the FINANCE CHARGE. It is the CHARGE for paying later - the cost of credit in dollars. Then - decide whether paying later is worth that many dollars. He said it was very important to think about this charge, and that was why the term was more conspicuous on the contract than most of the other credit terms.

·Third, look for the DEFERRED PAYMENT PRICE. That's the CREDIT price. It includes the cash price, the finance charge, and other charges that you might or might not have to pay if you paid cash. You need to think about the CREDIT PRICE, and decide if paying later is worth that much money.

·Fourth - and VERY important - look for the ANNUAL PERCENTAGE RATE. It is the charge for paying later - the finance charge expressed as a percentage. The LOWEST annual percentage rate is ALWAYS the best credit term buy, regardless of the amount of the debt or the time it takes to repay it. He showed Mr. Grey that the words were conspicuous on the contract - and told him to always look for that term. He said to COMPARE annual percentage rates on credit deals, and to always choose the lowest one if you want to GET THE MOST FOR THE LEAST AMOUNT OF MONEY.

Next the salesman told Mr. Grey that he could finance the car for 24 months at $77.50 a month, exactly as the advertisement had stated. Then he filled out a contract to show all the costs for the car. As he did so, he discussed other charges. He pointed out that credit life insurance could be purchased, but was not required, and Mr. Grey decided he wouldn't need it. When the salesman had finished filling in the contract, Mr. Grey saw that the Deferred Payment Price was a lot more than the Cash Price. (The difference was $365.) Even so, he could easily see that Lucky's terms were better than those offered by Wheels and Deals - and -

LUCKY'S ANNUAL PERCENTAGE RATE
WAS LOWER!

(Lucky's contract is Example 7 - next page.)

. . . . . .

SECURITY AGREEMENT AND RETAIL INSTALLMENT SALE CONTRACT (INSTALLMENT SALE OF MOTOR VEHICLE)

On this 15th day of July, 19 70 The LUCKY USED CAR Lot (Name) 490 Center St (Street Address) St. Louis (City) St. Louis (County) Mo. (State) hereinafter called SECURED PARTY, SELLER, hereby agrees to sell and Howard Grey (Name) 3585 Mainline (Street Address) St Louis (City) St. Louis (County) Mo. (State), DEBTOR—BUYER, hereby agrees to buy and to grant to Secured Party a security interest in the following described property:

New or Used	Yr. Mod.	Make	No. Cyl.	Model No.	Model Name	Body Type	Serial Number	Motor Number
Used	1967	Olds	8	98		Sedan	1L26J532	32546

Radio	Heater	Automatic Transmission	Overdrive	Power Steering	Power Brakes	Power Windows	Air Conditioning	Other
☒	☒	☒	☐	☒	☒	☐	☐	☐

This security interest is given to secure the payment and performance of the Debtor's obligations under this agreement and also to secure the payment of the Debtor's obligations on a promissory note of even date executed by Debtor and made payable to Secured Party in the principal sum of Eighteen hundred Sixty Dollars ($ 1860.00) payable in installments and maturing on the 15th day of July, 19 72.

CREDIT COST DISCLOSURE AS REQUIRED BY LAW

1. Cash Price	$ 1695.00	5. Unpaid Balance & Amount Financed	$ 1517.00
2. Cash Payment		6. FINANCE CHARGE (Composed of)	
(2A) Cash Down Payment	$ 200.00	(6A) Time Price Differential	$
(2B) Trade In (Describe)	$	(6B) Required Insurance (Itemize)	$
	$		$
Total Down Payment	$ 200.00	(6C)	$
3. Unpaid Balance of Cash Price	$ 1495.00	6. TOTAL FINANCE CHARGE	$ 343.00
4. Other Charges (Itemize)		7. Deferred Payment Price (1, 4D & 6)	$ 2060.00
(4A) Non Required Insurance		8. ANNUAL PERCENTAGE RATE 20.40 %	
	$	9. Total of Payments (3, 4D & 6)	$ 1860.00
	$	24 installments of $ 77.50 monthly beginning 8/15/70	
(4B) Official Fees License Fee	$ 22.00	LIABILITY INSURANCE COVERAGE FOR BODILY INJURY AND PROPERTY DAMAGE CAUSED TO OTHERS IS NOT INCLUDED. Number of payments, amounts thereof, due dates of each payment, and frequency thereof are disclosed in this document in the note and security agreement. The description of property to which a security interest is claimed and granted, the fact that afteracquired property is also liened and that future advances and other indebtedness to the secured party are likewise secured by the security interest in said property is disclosed within this document in the security agreement. Late charges of $5.00 or 5% of the payment, whichever is less, will be charged. Prepayment of the obligation may earn refund of the unearned FINANCE CHARGE as computed under Rule of 78s.	
(4C)	$		
4D. Total Other Charges	$ 22.00		

INSURANCE

PROPERTY INSURANCE, if written in connection with this extension of credit, may be obtained through any proper agent or company of choice by borrower, but if borrower desires such coverage to be obtained through or paid by creditor, the cost will be $ _____ for the term of the credit, subject only to rate increases granted by state officials, and such charge will be added to the cost of the credit.

CREDIT LIFE AND DISABILITY INSURANCE, is not required to obtain this extension of credit. If borrower desires such coverage the costs as set out below will be added to the cost of the credit

1. The cost for Credit Life Insurance alone will be $ _____ for the term of the loan.
2. The cost for Credit Life and Disability Insurance will be $ _____ for the term of the credit.

I desire Credit Life and Disability Insurance _____ (date) _____ (signed)

I desire property insurance _____ (date) _____ (signed)

I desire Credit Life Insurance _____ (date) _____ (signed)

I desire NO Insurance _____ (date) _____ (signed)

Party(ies) stipulate and agree that all provisions on the reverse side hereof are incorporated herein by reference and constitute a part of this agreement.

Notice to Buyer: Do not sign this contract before you read it or if it contains any blank spaces. You are entitled to an exact copy of the contract you sign. Under the law you have the right to pay off in advance the full amount due and obtain a partial refund of the time price differential.

Debtor acknowledges that on the day and year first above written, this agreement was executed and that on said day a fully completed copy of this agreement executed by both Secured Party and Debtor has been delivered to him.

SECURED PARTY

Name _____

(Corporation or Partnership)

By _____

-15-

DEBTOR

(Name)

(Corporation or Partnership)

By Example 7

Let's stop and compare deals -

1. How many monthly payments does each contract call for? 24

2. Which costs are the same on both contracts?

   The Cash Price and the Downpayment.

3. Which costs are higher at Wheels and Deals?

   Everything else - Other charges, amount financed, finance charge, total of payments, deferred payment price, monthly payments. And, of course, the ANNUAL PERCENTAGE RATE!

4. What made the difference?

   The amount of the "Other Charges." Actually, the charge for credit life insurance.

5. What did the salesman tell Mr. Grey about credit life insurance?

   The purchase of credit life insurance depends on the needs of the consumer, unless the contract states that it is required.

6. If you make a bigger downpayment, will the finance charge be less?

   Yes. The less dollars you finance, the lower the finance charge.

7. If the amount financed is reduced, what happens to the finance charge?

   It goes down. The finance charge is based on the amount financed. Again, the less dollars you finance, the lower the finance charge.

8. What is the quickest and easiest way to see which is the better deal?

   Compare ANNUAL PERCENTAGE RATES.

9. What do you think of Lucky's ad (Example 1)?

   It was truthful - meaningful - would help when shopping for credit.

10. What four things did the salesman say to look for?

    Cash Price, FINANCE CHARGE, Deferred Payment Price, and ANNUAL PERCENTAGE RATE.

    (Refer to blank contract, Example 6. Suggest that these four important credit terms be checked on the blank contract. Then mention and point out the location of various other kinds of information, such as:

    Payments - number, amount, due dates
    Penalty for Late Payments
    Refund if debt is paid off early
    Insurance
    Security

Our story continues -

Mr. Grey was about ready to buy the car when the salesman suggested another choice. Mr. Grey could pay for the car in 18 months at $98.33 a month. The salesman filled out a contract, just to show Mr. Grey the very real difference between his choices. Mr. Grey immediately noticed that the ANNUAL PERCENTAGE RATE WAS MUCH LOWER ON THE 18-MONTH PLAN. Also, he saw that he could save nearly $100 on the FINANCE CHARGE by making the higher monthly payments for fewer months.

(Lucky's 18-month contract is Example 8)

At that point Mr. Grey was convinced that he should buy from Luckys. Not only had he been offered better deals there, but also he had learned how really easy it is to SHOP FOR CREDIT.

Mr. Grey considered his choice of payment plans, and finally decided on 24 months. Although the other plan would certainly save money, he felt it was more important to be sure he could meet his monthly payments than it was to reduce his finance charge. If he couldn't afford the higher payments, he might lose his car.

SECURITY AGREEMENT AND RETAIL INSTALLMENT SALE CONTRACT (INSTALLMENT SALE OF MOTOR VEHICLE)

On this 15th day of July, 1970. The Lucky USED CAR LOT (Name)
490 Center St (Street Address) St. Louis (City) St Louis (County) MO. (State)

SECURED PARTY—SELLER, hereby agrees to sell and Howard Grey (Name) 3585 Mainline (Street Address)
St. Louis (City) St. Louis (County) MO. (State), DEBTOR—BUYER, hereby agrees to buy and to grant to Secured Party a security interest in the following described property:

New/Used	Yr. Mod	Make	No. Cyl	Model No.	Model Name	Body Type	Serial Number	Motor Number
USED	1967	Olds	8	98		Sedan	1L26J532	32546

Radio	Heater	Automatic Transmission	Overdrive	Power Steering	Power Brakes	Power Windows	Air Conditioning	Other
☒	☒	☒	☐	☒	☒	☐	☐	☐

This security interest is given to secure the payment and performance of the Debtor's obligations under this agreement and also to secure the payment of the Debtor obligations on a promissory note of even date executed by Debtor and made payable to Secured Party in the principal sum of Seventeen hundred Sixty Nine & 94/100 — Dollars ($ 1769.94) payable in installments and maturing on the 15 day of Jan. 1972

CREDIT COST DISCLOSURE AS REQUIRED BY LAW

1. Cash Price	$ 1695.00	5. Unpaid Balance & Amount Financed	$ 1517.00
2. Down Payment		6. FINANCE CHARGE (Composed of)	
(2A) Cash Down Payment	$ 200.00	(6A) Time Price Differential	$
(2B) Trade In (Describe)	$	(6B) Required Insurance (Itemize)	$
		(6C)	$
Total Down Payment	$ 200.00	6. TOTAL FINANCE CHARGE	$ 252.94
3. Unpaid Balance of Cash Price	$ 1495.00	7. Deferred Payment Price (1, 4D & 6)	$ 1969.94
4. Other Charges (Itemize)		8. ANNUAL PERCENTAGE RATE 15.25 %	
(4A) Non Required Insurance	$	9. Total of Payments (3, 4D & 6)	$ 1769.94
	$	18 installments of $ 98.33 monthly beginning 8/15/70	
(4B) Official Fees License Fee	$ 22.00	LIABILITY INSURANCE COVERAGE FOR BODILY INJURY AND PROPERTY DAMAGE CAUSED TO OTHERS IS NOT INCLUDED. Number of payments, amounts thereof, due dates of each payment, and frequency thereof are disclosed in this document in the note and security agreement. The description of property to which a security interest is claimed and granted, the fact that afteracquired property is also liened and that future advances and other indebtedness to the secured party are likewise secured by the security interest in said property is disclosed within this document in the security agreement. Late charges of $5.00 or 5% of the payment, whichever is less, will be charged. Prepayment of the obligation may earn refund of the unearned FINANCE CHARGE as computed under Rule of 78s.	
(4C)	$		
4D. Total Other Charges	$ 22.00		

INSURANCE

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CREDIT LIFE AND DISABILITY INSURANCE is not required to obtain this extension of credit. If borrower desires such coverage the costs as set out below will be added to the cost of the credit.

1. The cost for Credit Life Insurance alone will be $ for the term of the loan.
2. The cost for Credit Life and Disability Insurance will be $ for the term of the credit.

I desire Credit Life and Disability Insurance _____ (date) _____ (signed)

I desire Credit Life Insurance _____ (date) _____ (signed)

I desire property insurance _____ (date) _____ (signed)

I desire NO Insurance _____ (date) _____ (signed)

Party(ies) stipulate and agree that all provisions on the reverse side hereof are incorporated herein by reference and constitute a part of this agreement.

Notice to Buyer: Do not sign this contract before you read it or if it contains any blank spaces. You are entitled to an exact copy of the contract you sign. Under the law, you have the right to pay off in advance the full amount due and obtain a partial refund of the time price differential.

Debtor acknowledges that on the day and year first above written, this agreement was executed and that on said day a fully completed copy of this agreement executed by both Secured Party and Debtor has been delivered to him.

SECURED PARTY

(Name)

(Corporation or Partnership)

By

DEBTOR

(Name)

(Corporation or Partnership)

By Example 8

After all decisions were made, Mr. Grey read his contract carefully, asked questions about things he didn't understand, and then signed. The salesman gave him a copy of his contract and the keys to his new car. Breathing a sigh of relief, Mr. Grey drove away - a happy car owner.

.....

Let's look at Lucky's 24-month payment plan versus the 18-month payment plan - Example 9 - Know the $ Cost of Credit -

This chart compares the 24-month plan with the 18-month plan. What is the charge for paying later in each case?

1. How much is the finance charge for each?

24 monthly payments - $343.00
18 monthly payments - $252.94
$ 91.06

Mr. Grey could have saved $91.06 if he could have handled the higher payments.

2. What is the annual percentage rate for each?

24 monthly payments - 20.40
18 monthly payments - 15.25

REMEMBER - You can save money if you can make higher payments for a shorter period of time.

. . . . . .

KNOW THE $ COST OF CREDIT

It costs money to use credit. The following formulas are good to remember when shopping for credit:

Higher monthly payments + lower no. of months = lower finance charge

Lower monthly payments + higher no. of months = higher finance charge

Compare Costs:	Deal A	Deal B
Monthly terms	Pay $77.50 a month for 24 months	Pay $98.33 a month for 18 months
Cash price of car	$1695.00	$1695.00
Subtract cash downpayment	200.00	200.00
Unpaid balance of cash price	$1495.00	$1495.00
Add other charges	22.00	22.00
Amount financed	$1517.00	$1517.00
Monthly payments	$77.50 a month	$98.33 a month
Times no. of payments	x 24	x 18
Total of payments	$1860.00	$1769.94
Subtract amount financed	1517.00	1517.00
Finance charge	$. 343.00	$ 252.94

Finance charge = the $cost of credit

Annual percentage rate	20.40%	15.25%

Annual percentage rate = the cost of credit expressed as a percentage

Mr. Grey was exposed to four credit deals, as shown below-

	ANNUAL PERCENTAGE RATE
Financing $200.00---12 months	26.50
Financing $1,560.23-24 months	21.60
Financing $1,517.00-24 months	20.40
Financing $1,517.00-18 months	15.25

Which is the best credit deal?

Check the ANNUAL PERCENTAGE RATE. It's the ONLY way you can compare these deals. The LOWEST ANNUAL PERCENTAGE RATE is the BEST credit cost deal!

. . . . . .

Three things are necessary to using credit WISELY. You must -

- Know how much credit you can AFFORD
- LEARN the new credit terms
- SHOP for credit

DID MR. GREY USE CREDIT WISELY?

. . . . . .

REMINDERS -

. Advertising is sometimes misleading.

. You can seldom make a large purchase on credit with nothing down.

. Pay as much down as you can.

. Check and understand "other charges."

. If credit life insurance is not required, buy it only if you need it.

. You can reduce your $ cost of credit (finance charge) by paying higher monthly payments for a shorter period of time.

AND - THE BIG THREE -

. The FINANCE CHARGE is the dollar charge for paying later.
Is paying later worth that many dollars?

. Use the ANNUAL PERCENTAGE RATE to get the most for the least amount of money. It's the ONLY way you can compare credit deals.

. The DEFERRED PAYMENT PRICE is the CREDIT PRICE. It includes the cash price, the finance charge, and other charges. Is paying later worth that much money?

. . . . .